

Science & Society, Vol. 74, No. 3, July 2010, 409–428

Marx and the Mixed Economy: Money, Accumulation, and the Role of the State

ANN E. DAVIS

1. *A Heterodox Perspective on Money*

AS IS WELL KNOWN, Marx provided a critique of political economy in his major works, especially *Capital* (1967). Within this major work he provided a profound analysis of the role of money in the capitalist system, based on the opposition of use value and exchange value and the contradictions of the commodity form. He did not provide extensive analysis of the role of the state in association with money, however. The goal of this paper is to extend Marx's analysis of money to include the role of the state, and to achieve a greater understanding of the complexities of that role, particularly in modern mixed economies.

This approach focuses particularly on the role of institutions related to finance and the state role in economic stabilization. While there is a well-developed Marxian theory of money as a quantitative expression of labor time (Foley, 1986; Moseley, 2005, 2008), the present approach is more institutional. That is, it is important to account for the institutional origin of money, in terms of its issue and management by the nation–state, as well as the operations of fractional reserve banking, the management of currency and credit by the central bank, and the fluctuations in its “credibility.”

The paper proceeds by presenting an overview of Marx's circuits of capital. By adding a circuit explicitly for the state, the issue of money and its use in economic stabilization can be better understood within a Marxian framework. The capacities of such tools for economic management as well as their limits can be analyzed using the example of international currency, where money corresponds to its “ideal concept” (Marx, 1967 I, 142). In concluding, the paper will show how the current financial crisis can be grasped more clearly by using such a framework.

2. *Marx's Theory of Money*

Within his analysis of the capitalist system, Marx developed a comprehensive and sophisticated theory of money.

2.1. *Money as a Universal Equivalent.* Money is a “universal equivalent” in relation to all other commodities, expressing their common feature, being the result of production by social labor. That is, money is a “socially recognized form” which reflects their common element that commodities are the result of the “expenditures of human labor-power” (Marx, 1967, I, 66–69, 73). The quantitative dimension of the exchange value of commodities is expressed in the money price of each commodity relative to the others. This comparative value of various commodities expresses the relative extent of the labor time necessary to produce them. This explicit focus on the quantitative relationship of equivalents is developed in Section 3 of Chapter 1, Volume I.

In addition to a strict quantitative dimension, there is also a symbolic role for money. Paper money can represent gold, which in turn symbolizes the value of commodities. Money represents the value of commodities that are in the process of circulation, and in the pro-

cess of transformation of form within the financial circuits. This value of commodities is capable of expression in symbolic form (Marx, 1967, I, 127).

The independent existence of the exchange-value of a commodity is here a transient apparition, by means of which the commodity is immediately replaced by another commodity. . . . Being a transient and objective reflex of the prices of commodities, it serves only as a symbol of itself, and is therefore capable of being replaced by a token. One thing is, however, requisite; this token must have an objective social validity of its own, and this the paper symbol acquires by its forced currency . . . the compulsory action of the State. (Marx, 1967, I, 128.)

2.2. *The Role of the State.* Marx notes the role of the state in the issue of money. “Coining, like the establishment of a standard of prices, is the business of the State” (Marx, 1967 I, 124–125). Because money is “purely conventional” and must have “general acceptance,” “it is in the end regulated by law” (Marx, 1967 I, 100). While the development of the money form in Chapter 1 of *Capital* refers to the role of gold and silver as the typical substances of the universal equivalent, the symbolic role of money as representing social labor can be performed by paper currency as well, so long as it is “issued by the State and having compulsory circulation” (Marx, 1967 I, 126–129). While this responsibility of the state to designate legal tender is essential, there is also a quantitative dimension to the supply of money. The volume of paper money would need to approximate the appropriate quantity of gold, or else “there would no longer be any standard” (Marx, 1967 I, 128).

As explored in *Capital*, the Bank of England was a “semi-government institution” which was able to issue notes in excess of the bullion on reserve in its vaults, thus creating “fictitious capital.” Not only was all government tax revenue deposited with the Bank, but its notes were also backed by the total wealth of the nation (Marx, 1967 III, 540–541). The centralization of the credit system in national banks and large money lenders increased the “velocity of circulation” (Marx, 1967 III, 520–525), but also gave “this class of parasites . . . fabulous power” (Marx, 1967 III, 545). During the expansionary phase of the business cycle, credit can expand, with the central bank as the “pivot of the credit system.” At times of crisis, however, there is a “mad demand” for gold and silver (Marx, 1967 III, 573–574).

With the development of the credit system, capitalist production continually strives to overcome the metal barrier, which is simultaneously a material and imaginative barrier of wealth and its movement, but again and again it breaks its back on this barrier. (Marx, 1967 III, 574.)

That is, money must be managed by the state to be in proper proportion to the value of gold, but must also be flexible to allow the growth of credit along with the business cycle. The state’s declaration of legal tender, and its credit backed by its taxing authority, are powerful means of managing money and credit.

2.3. *Hoarding.* The use value of the money commodity is to express the exchange value of all other commodities. Once the role of a particular commodity or paper currency is well established, the money token can represent the entire power of total social labor. That is, “money itself is a commodity, an external object, capable of becoming the private property of any individual. Thus social power becomes the private power of private persons” (Marx, 1967 I, 132). Money in this context can represent “the social wealth of its owner” and desire for it becomes “insatiable” (Marx 1967 I, 131–133). The capacity for hoarding to potentially disrupt the circulation of money was also noted by Keynes (Keynes 1964, 194–209, 342–344), as well as by Marx in his analysis of crises (Marx, 1967 I, 114, 138; III, 572–574).

3. *Financial Circuits*

While money appears to be the medium of circulation, the circuits of money are actually an expression of the changing form of the value of the commodity (Marx, 1967 I, 116, 153–155). Circulation, and the expansion of value, is an end in itself, and therefore without limit (Marx, 1967 I, 151–152).

Marx identifies two types of financial circuits in *Capital*: First, the workers’ circuit, by which a worker sells the commodity labor-power, C, for money, M, to exchange for wage goods, C. There is no expansion of value in this circuit.

$$C — M — C \quad \text{workers’/consumers’ circuit} \quad (1)$$

Second, the capitalist firm begins with a cash balance, M, which is exchanged for commodity inputs, labor-power and means of produc-

tion, then sells the product for an increment of money over the cost of the inputs, M' .

$$M - C - M' \quad \text{capitalists' circuit} \quad (2)$$

As the circulation of commodities becomes extended, “credit-money” arises as a means of transferring debts to others. Money becomes the manner in which all contracts are settled, including taxes as well as payments for wages and commodities. This extended use of money encourages the accumulation of reserves in anticipation of future payments (Marx, 1967 I, 139–142).

The existence of a powerful state is assumed in Marx’s analysis. But the ability of the state to finance the military, for the expansion of markets abroad and for the discipline of labor at home, must be developed. In fact, capitalist competition and success at imperialist wars has often been determined by relative fiscal capacity (Ferguson, 2001). Further, the currency in which the circuits (1) and (2) are intermediated would not exist without the imprint of the state, the “sovereign,” as Polanyi (1944) stresses.

To Marx’s two interlocking circuits above, I would add a third, the state’s financial circuit. In contrast to Marx’s discussion in *Capital*, the issue and management of the currency is now fully incorporated into the state in advanced capitalist countries. For example, in the United States, management of the currency is a function authorized by the Constitution. After several unsuccessful attempts in the 19th century, a central bank was established in the early 20th century (Davis, 2008). The state issues money, M , whether commodity or fiat currency, as a liability of the state (this discussion draws upon and extends the Chartalist approach; Tcherneva, 2007; Wray, 1998, 23, 69; Lerner, 1947). In turn, the state pledges to accept this money as legal tender, in payment of taxes. The state can also make use of these cash balances to purchase commodities, C , to perform state functions. The state is the only issuer of debt which is bound to receive its own debt token as repayment in taxes.¹

This can be formalized as a third circuit, where $M^{\$}$ is denominated in national currency.

1 Because of its legal powers and broad taxing authority, the state manages the clearing-house function, and is the apex of the pyramid of credit. See Mehrling, 2000.

$$M^{\$} - C - M^{\$} \quad \text{state's financial circuit} \quad (3)$$

In fact, the circuits (1) and (2) above should also be denominated in the domestic currency, which is designated as legal tender.

$$C - M^{\$} - C \quad \text{workers'/consumers' circuit} \quad (1')$$

$$M^{\$} - C - M^{\$} \quad \text{capitalists' circuit} \quad (2')$$

The state’s circuit (3) differs from the capitalist circuit, (2') above, in three respects: a) there is no expansion of value; b) the commodities purchased are not necessarily means of production for the production of surplus value, but can represent provision of state services, infrastructure, defense, and other public goods deemed important to the competitive health of the national capitalist economy; and c) while there is no expansion of value, ultimately the government budget must balance, or at least tax revenues must cover debt service. That is, there must be a sufficient return flow of funds to maintain the creditworthiness of the state.

The purpose of the state’s purchase of commodities, C , is to stabilize and to expand the capitalists’ circuit, (2'). The expansion of value of the capitalists’ circuit, $M^{\$}$, is partially shared with the state as tax revenue. Additional tax revenue, in turn, allows expansion of the state’s financial circuit, and stabilizes and strengthens the national currency, in a mutually reinforcing process. While not explicitly producing commodities for sale, like the capitalist firms, the state must nonetheless remain mindful of its budget balance.

As the national debt finds its support in the public revenue which must cover the yearly payments for interest &c., the modern system of taxation was the necessary complement of the system of national loans. The loans enable the government to meet extraordinary expenses, without the tax-payers feeling it immediately, but they necessitate, as a consequence, increased taxes. (Marx, 1967 I, 756.)

In the 19th-century United States, some states and local governments built canals, toll roads, and railroads, explicitly charging fees to cover the issuance of debt, often successfully as in the case of the Erie Canal. In the 20th century, the national government engaged in deficit fi-

nancing of strategic projects, with the intention of stimulating economic growth sufficiently, via the “multiplier,” to repay with tax revenues the initial debt outlay. That is, the government budget was intended to balance in the long run.

Marx discussed aspects of this role of the state, such as the role of debt to aid accumulation. For example, the Bank of England was empowered by Parliament to issue coin, which it then loaned to the state. The bonds issued by the state in turn created the public debt, “one of the most powerful levers of primitive accumulation” (Marx, 1967 I, 754–755), and the expansion of the international credit system. Further, the imposition of taxes is one method of mobilizing resources to become monetized in circuits, the so-called “cash nexus.” The insistence of payment of taxes in money instead of real terms had the capacity to transform farming (Marx, 1967 I, 140–141). As Marx expressed this idea,

Over-taxation . . . [is] the best system for making the wage-labourer submissive, frugal, industrious, and overburdened with labour. . . . The public debt, and the fiscal system corresponding with it, has played [a great part] in the capitalisation of wealth and the expropriation of the masses. (Marx, 1967 I, 756.)

As Marx noted, the Bank of England “gave with one hand and took back more with the other” (Marx, 1967 I, 755). According to Marx, the total wealth of the nation backs up the banknotes of the Bank of England, which function as a “symbol of value” (Marx, 1967 III, 540, 555).

Is there anything more absurd, for instance, than the Bank of England (1797–1817) — whose notes have credit only thanks to the state — taking payment from the state, *i.e.*, from the public, in the form of interest on government loans, for the power granted it by the state to transform those same notes from paper into money and then to lend it back to the state? (Marx, 1967 III, 542.)

Both government securities and gold specie were held as reserves by the Bank of England as backing for the issue of banknotes (Marx, 1967 III, 554). In fact, the domestic market had no need for metal (Marx, 1967 III, 517), which was most useful in balancing international

accounts.² The issue of paper currency with the backing of the state can facilitate the process which is now termed “financialization.” That is, the direct exchange of financial instruments can simplify and shorten the financial circuit, and increase the velocity of circulation. The development of the credit system also exacerbates the tendency for the financial circuits to decouple from real commodity production (Marx, 1967 I, 155; III, 315–322, 368–369, 479–484, 508).

$M^{\$} — M^{\$}$ circuit of “fictitious capital” (2a')

In Marx’s terminology, financial instruments are “fictitious capital,” in which a projected stream of revenue becomes capitalized at the going rate of interest, and subject to speculation and fluctuating values (Marx, 1967 III, 465–470, 493). Recent analysis has emphasized the process of “financialization” (Harvey, 2005; Epstein, 2005), especially given the deregulation in domestic and global financial markets since 1980. Where money flows are perceived as the essence of value, the power of money takes on its most fetishistic aspects.

The relations of capital assume their most externalized and most fetish-like form in interest-bearing capital. We have here $M — M'$, money creating more money. . . . The result of the entire process of reproduction appears as a property inherent in the thing itself. (Marx, 1967 III, 391–392).

4. *The Role of the State in Macro-Stabilization*

Marx understood the important ideological division between the market and government in the liberal state (Marx, 1970), what can be termed a “public–private divide” (Habermas, 1989). Short of complete “human emancipation,” however, the state would maintain the separation between the general, public interest of the citizen and the narrow self-interest of the bourgeoisie (Marx, 1978, 33–46). Marx articulated the irony of using the market as a “steering mechanism” (Habermas, 1973), where there are “material relations between persons and social relations between things” (Marx, 1967 I, 73). The contemporary mantra of “letting the market decide” is essentially allowing the “social action [of producers to] take the form of the

² The international clearinghouse function is not clearly assigned, but is often managed by the hegemonic nation (D’Arista, 2005).

action of objects, which rule the producers instead of being ruled by them,” or the equivalent of “commodity fetishism” (Marx, 1967 I, 75). In this inverted context, money appears as a phenomenon of the market, created strictly to facilitate transactions as a “medium of exchange.” Within this institutional setting, the role of the state is to protect private property and to maintain capitalist profitability, and to reinforce the apparent public–private divide.

In the post–World War II modern economy, the government has assumed an extended role to stabilize volatile investment decisions, much as Keynes had prescribed (Keynes, 1964, 376–381). While government spending does not add directly to surplus or profit, it is still possible to smooth the business cycle by deficit financing (Mattick, 1969, 155–164). Government can contribute to profitability by undertaking pre-competitive research and development to launch new industries, stimulating effective demand by income redistribution, or by funding capital-intensive infrastructure which lowers the overall cost of production. Similarly, contributions towards training and education of labor can promote profitability by increasing productivity. Ultimately the contribution of government spending towards profitability must exceed its costs, or it will result in a deduction from total profit. For Mattick, the production of surplus is a clear criterion for the public–private divide.

The state is constitutionally responsible for coinage of the currency and management of its value (Polanyi, 1944). Once the currency is designated as legal tender, the operation of a fractional reserve banking system and open market operations by the central bank can further expand and contract the money supply, to achieve the goal of economic stabilization. According to Keynes’ basic insight, the role of money in a modern economy can facilitate manipulation of the rate of interest, to stimulate investment and to achieve full employment (Keynes, 1964, 375). With such macroeconomic policies determining the level of aggregate output, markets would determine the composition of output.

The ability of the state to contribute to profitability also depends on the period and the particular institutional arrangements. Throughout the 19th and 20th centuries, a recurrent focus on “hard currency” and sound money enabled the state to resist populist demands (Davis, 2008). During the postwar period of “embedded liberalism,” an expanded role of government contributed to profitability and

growth (Harvey, 2005, 10–12). After 1980, a turn towards neoliberalism and a reduced role of government sought to restore profitability by greater support of privatization and free markets (Harvey, 2005, 76–81, 90–94).

5. *Public Finance*

In more modern terms, public finance and double-entry bookkeeping provide the detailed accounting (Poovey, 1998) by which confidence in this state money can be assured, while it is also a creation of the state. State money utilizes a public–private divide, a form of double-entry bookkeeping (where the terms “public” and “private” may actually lose consistent meaning). That is, on the one hand, a) the state issues debt; it borrows from the public in the form of issuing currency and bonds, repayable in the present and future. The state also b) creates a credit for itself; a sovereign state can assign a tax liability to the public, levied by constitutional processes. The extent and effectiveness of its taxing authority is one determinant of the international confidence in its currency. That is, the fiscal balance and credibility of a state tend to affect its currency value, in aggregate.

As shown in Table 1 below, any given financial instrument, tax capacity (currency) is at once an asset (liability) for the state and a liability (asset) for the public.

As such, state debt, consisting of currency and treasury bonds, is essentially a highly secure asset, which provides a means of intertemporal intermediation, and serves as ballast for the financial system as a whole (Davis, 2008). Using double-entry bookkeeping to “balance” the accounts, the total size of the government balance sheet is relatively elastic, responsive to the need for macroeconomic stabilization and management of credit.

Table 1

Financial Instrument	Public	State (including central bank and treasury functions)
Tax capacity	Liability	Asset
Fiat currency, bonds	Asset	Liability

The taxing authority of the liberal state provides a guarantee of future resources to support the issue of national debt, and to provide a highly liquid asset to support private financial markets. Taxes also monetize and mobilize resources which might otherwise remain in non-market uses (Ferguson, 2001; Wray, 1998, 37, 155–156). As the “division of labor depends on the extent of the market” (Smith, 1994), the entire market system can improve in productivity as a consequence of the expansion of the scale of financial circuits, which is a common interest of both the state and private firms. That is, although the financial circuit of the state (3) does not expand value, the extension of scale facilitates the expansion of the financial circuits of private firms (2'). The private firms produce surplus value, in turn, which is subsequently shared with the state as tax revenue, and becomes a source of revenue for interest payments on the national debt.

As elucidated in this institutional framework, the capacity to issue money is complementary with other roles of the state, including the protection of private property, adjudication of conflict based on that property, and the development and protection of foreign markets. The state benefits by seignorage, that is, the acquisition of real assets by issue of its own debt. With expanded fiscal capacity, the state can also support a military, rendered on a cash expenditure basis instead of feudal obligation (Ferguson, 2001). The modern state also recognizes the commodity form of labor-power, with the associated authority of the capitalist firm, while still managing labor relations by means of legislation, such as the Factory Acts (Commons, 1995; Marx, 1967 I, 264–302). That is, the firm’s ability to command labor is a form of coercion, as opposed to the ostensible “free agents” which the liberal state equally protects according to the “inalienable rights of man” (Marx, 1967 I, 302). The resulting commodities provide real consumer goods and financial profits, which are then shared with the state as tax revenue. If the production of commodities were not roughly commensurate with the stock of currency, according to a basic quantity theory of money (Marx, 1967 III, 546–548), the value of the currency would change, upsetting intertemporal intermediation with either inflation or deflation. That is, management of the value of the currency has become an important responsibility of modern central banks, in an effort to avoid crises.

Once a crisis occurs, from a variety of possible contradictions (see for example Davis, 1983), such as from a falling profit rate or

a realization problem, there is desperate pursuit of exchange value, at the expense of use values. That is, surplus labor, capital, or commodities are devalued in pursuit of completion of the monetary circuit (2') above, $M^{\$} - C - M^{\$}$.

In times of a squeeze, when credit contracts or ceases entirely, money suddenly stands as the only means of payment and true existence of value in absolute opposition to all other commodities. . . . The value of commodities is sacrificed for the purpose of safeguarding the fantastic and independent existence of its value in money. . . . As long as the *social* character of labour appears as the *money-existence* of commodities, and thus as a *thing* external to actual production, money crises — independent of or as an intensification of actual crises — are inevitable. (Marx, 1967 III, 516–517; italics in original.)

That is, as Marx emphasizes, in times of crises, the “fantastic and independent existence” of value as money is highlighted, in “absolute opposition to all other commodities” (see also Marx, 1967 III, 572–574).

6. *Commodity Fetishism*

These magical qualities of money are part of the phenomenon of “commodity fetishism.” That is, this mere token of value takes on associations of power that are due to the division of labor, the exchange of the commodity labor-power, and the extent of the market, a “social hieroglyphic” in Marx’s terms (Marx, 1967 I, 74). The gains from “cooperation,” the social organization of the market system operating as a whole (Marx, 1967 I, 322–335), are often attributed to the power of money itself, in its token form. Analyzing the sphere of circulation alone, according to “vulgar economists,” money appears to “beget money” (Marx, 1967 I, 155). This assignment of the power of the whole to a concrete manifestation of a part is an example of fetishism (Marx, 1967 I, 71–83; Kaplan, 2006). “As, in religion, man is governed by the products of his own brain, so in capitalistic production, he is governed by the products of his own hand” (Marx, 1967 I, 621).

How are gold and silver distinguished from other forms of wealth? . . . By the fact that they represent independent incarnations, expressions of the *social* character of wealth. . . . It is faith in the social character of production

which allows the money-form of products to assume the aspect of something that is only evanescent and ideal, something merely imaginative. . . . The fact that social production is not really subject to social control is strikingly emphasized by the existence of the social form of wealth as a thing external to it. (Marx, 1967 III, 573–574, italics in original.)

The aspects of a “modern fact” are also relevant in this context. That is, the power of a money token is a self-fulfilling belief, and powerful as a result of that very belief (Poovey, 1998). A state with a powerful currency can also expand its fiscal capacity. The fiscal capacity of the state then allows the expansion of military power, which in turn facilitates the extension of markets, the production of surplus value, followed by the further increments of tax revenue and military capacity, a so-called “square of power” (Ferguson, 2001). That is, the “power” of money is based on various factors: 1) the productivity of labor; 2) the exchange of the commodity labor-power (and the associated institutional conditions for the existence of labor-power as a commodity); 3) the extent of the market; 4) the military power of the state; and 5) the fiscal credibility of the state (Table 1, above).

These factors are ultimately related to the social nature of capitalist production, the power of which appears to be a “fantastic” characteristic of money itself.

7. *International Dimensions*

In the “markets of the world . . . money acquires to the full extent the character of the commodity whose bodily forms is also the immediate social incarnation of human labor in the abstract” (Marx, 1967 I, 142). By contrast, mainstream economic theory has several explanations for the international value of a currency: 1) equilibration of international balances of payments; 2) currency as a type of interest-bearing asset; 3) in the long run, purchasing power parity (Krugman and Obstfeld, 2009). That is, in mainstream theory, national currencies are perfectly fungible, differentiated only by yield and liquidity. Nonetheless, some institutionalist historians, game theorists, and post-Keynesians — such as Eichengreen and Hausmann, 2005; Aizenman, 2007; and Terzi, 2006 — have acknowledged the “hierarchy” of currencies. The hegemonic state is often the guarantor of the hegemonic or key currency (Block, 1977; Wachtel, 1986).

The U. S. dollar has served as the hegemonic fiat currency since 1973, when dollar convertibility into gold was revoked by the Nixon administration. In spite of the absence of “backing” by a precious metal like gold, the dollar continues to maintain its role as the world’s largest reserve currency. That is, the use value of the U. S. dollar is to represent the abstract exchange value of global commodities. Rather than an exact quantitative reflection of labor time, however, the value of the dollar is also influenced by relative military power, as well as by the size and international reach of domestic multinational corporations (Frank, 2003).

In the international context, the role of currency and credit as a tool of concentration and centralization is also more apparent (Marx, 1967 I, 626–628). That is, the role of the U. S. dollar as a key currency provides several functions. The ability to issue debt denominated in the national currency conveys specific benefits (Morgan, 2009; Roubini, 2009). For example, issuing debt in one’s own currency transfers currency risk to the lender. Unable to issue debt in their own currencies, or subject to “original sin,” developing countries must continue to export to the United States to earn dollars, in order to borrow internationally (D’Arista, 2005; Eichengreen, 2007). Further, the demand for U. S. dollars as “hard” currency maintains its value, providing terms-of-trade advantages for U. S. corporations operating abroad. Such international expansion of scale by U. S. firms provides an offsetting tendency for the rate of profit to fall (Marx, 1967 III, 223–225).

For example, a multinational corporation (MNC) with a foreign affiliate in an emerging country has an expansion of value based in the domestic currency, M^* , as shown in the circuit (4) below, modifying circuit (2') above:

$$M^* — C — M^* \quad (4)$$

Further, the initial borrowing may occur in the hegemonic currency, $M^{\$}$, and the complete circuit includes the return to that hegemonic currency. If the purchasing power of the hegemonic currency is greater than that of the domestic currency of the emerging country, there is an even greater expansion of value with the translation back into the hegemonic currency. Combining (4) and (2'),

$$M^{\$} - M^* - C - M^{*'} - M^{\$'} \quad (5)$$

In this fashion, the role of the state in the issue and maintenance of the hegemonic currency improves the profitability of the hegemonic nation's MNCs with global production affiliates.

This key role of the dollar as a reserve currency can be expressed in terms of the central bank balance sheet of an emerging country (see Table 2 below).

In the first row, the balance sheet is much like that of the hegemonic nation. The issue of domestic currency as a liability of the central bank must be met by the asset of a domestic tax capacity. In the context of international currency exchange, however, the ability of the emerging country central bank to support its domestic currency depends on its reserves of "hard" currency. In turn, these hard currency reserves are earned by domestically produced exports. That is, the task of supporting a non-hegemonic currency is more costly, in terms of the commitment of domestic resources, for export as well as for tax capacity. The requirement that the emerging country maintain a balance of payments surplus, with exports exceeding imports, is a form of "saving," which is particularly burdensome in countries with low incomes and deficits of domestic capital.

In the international context, the U. S. dollar retains the symbolic value of its hegemonic nation of origin (Gao, 2009), which is self-reinforcing. The market for U. S. Treasury bonds by the central banks of emerging countries helps to maintain cheap credit in the United States, even as the U. S. government deficit expands. This access to

Table 2
Emerging Country Central Bank

Origin	Asset	Liability
Domestic	Domestic Tax Capacity	Domestic Currency, Bonds
International	Hegemonic country currency, T-bonds	International circulation of emerging country currency
International	Export capacity to hegemonic country	

credit enables the United States to continue to wage foreign wars and to stimulate its domestic economy. In return for its financial assets (or "fictitious capital"), the USA can import real resources from other nations (McKinnon, 2005, 2007a).

Endeavoring to explain the position of the USA as the world's largest net debtor, mainstream economists suggest that it provides a global service in intermediating capital flows denominated in dollars (Lucas, 1990; Hausmann and Sturzenegger, 2006a; Eichengreen, 2007, 14, 20, 22), benefitting its domestic financial services industry. The preferred mainstream explanation for these "perverse" capital flows is based on inadequate protection of property rights and underdeveloped capital markets in developing countries. An alternative approach is to stress the comparative advantage of the United States in financial services (Caballero, Farhi, and Gourinchas, 2008) or to abandon entirely the notion that capital *should* flow from rich to poor countries, and merely to maintain that the United States receive a portion of capital commensurate with its share of world capital markets (Higgins and Klitgaard, 2007).

Ironically, even as the latest financial crisis originated in the United States, its global unfolding has generated a demand for the U. S. dollar, as a "flight to quality," driving down U. S. interest rates on U. S. Treasury bonds. While this facilitates increased U. S. government borrowing in the short run, anxiety about continuing bond purchases by the central banks of China and other surplus countries has increased. That is, there is at once a continued focus on the dollar as the world's key currency, even as the limits of U. S. fiscal capacity to support it become more apparent.

In times of financial crisis, the active role of the state in securing national and international money becomes even more apparent, by means of guarantee and direct bailout (Harvey, 2004, 73–74). There is an expectation that the government budget will expand sufficiently to compensate for the shortfall in private spending (Krugman, 2009). Yet there are limits to the state's capacity to manage the extensively globalized capitalist circuits. International financial meetings in 2009 continue to address the issue of the U. S. Gross Domestic Product compared with its increasing burden of government debt (Thomas, 2009). Attempts will be made to distribute the cost of financial support among advanced capitalist countries, effectively bailing out the USA, even as it was the origin of the most recent financial crisis. Popu-

list anger is growing inside the United States at bailing out the financial system at taxpayer expense. As Polanyi points out in his discussion of the 1930s, there is a considerable potential for political unrest and shifting forms of governance, from communism to fascism, in these desperate efforts to “save the currency” (Polanyi, 1944, 228–233).

8. Conclusion

Building upon the institutional Marxian analysis of money above, the role of the state is integral to the issue and management of money. This connection between money and the state can also help account for the observation that currencies matter; that is, currencies are not perfect substitutes, as mainstream theory would suggest, but rather encode the characteristics of the issuing nation-state, with a clear and demonstrable hierarchy. This hierarchy of currencies, in turn, tends to perpetuate global inequality, compounding systemic tendencies for concentration and centralization.

The national currency can be a tool of capitalist accumulation and the projection of state power. Confidence in that currency can facilitate the financing of the state, through taxes and debt, enabling the military expenditures which reinforce that power. On the other hand, if confidence in that national token currency, a form of fetishism, permits overextension, by accumulation of international debt, financial “innovation,” and military overreach, then the international financial system based on that national currency is at risk. The role of the dollar as the universal equivalent is confronted by the discrete limits of its backing, the U. S. national tax capacity and emerging-country export capacity in the midst of a steep global downturn. At this point, the role of the U. S. dollar as a key currency becomes a source of global instability, instead of the opposite.

The role of the state is more apparent in currency crises, in spite of “free market” rhetoric and the rules of the public–private divide (which are then flagrantly violated). International currency values, in particular, can only be maintained by an explicit international bargain regarding the “rules of the game.” Legitimacy may require equity and participation, which may be inconsistent with the competitive and uneven nature of capitalism. Ironically, efforts to protect the financial system at the expense of the state can only disturb

the foundations of the currency. According to Marx, the prospects for illuminating the “hieroglyphic” of money, and clarifying its social nature, rely ultimately on the transformation of the commodity form of labor-power into communities of freely associated producers.

*School of Management
Marist College
3399 North Road
Poughkeepsie, NY 12601
ann.davis@marist.edu*

REFERENCES

- Aizenman, Joshua. 2007. “Large Hoarding of International Reserves and the Emerging Global Economic Architecture.” Presented at Growth and Business Cycles in Theory and Practice Conference, Center for Growth and Business Cycle Research at the University of Manchester (July 13).
- Bernanke, Ben S. 2005. “The Global Saving Glut and the U. S. Current Account Deficit” (March 10). <http://www.federalreserve.gov/boarddocs/speeches/2005/200503102/default.htm>
- Block, Fred. 1977. *The Origins of International Economic Disorder: A Study of United States International Monetary Policy from World War II to the Present*. Berkeley, California: University of California Press.
- Caballero, Ricardo J., Emmanuel Farhi, and Pierre-Olivier Gourinchas. 2008. “An Equilibrium Model of ‘Global Imbalances’ and Low Interest Rates.” *American Economic Review*, 98:1 (March), 358–393.
- Commons, John R. 1995. *Legal Foundations of Capitalism*. London: Transaction Publishers.
- D’Arista, Jane. 2005. “The Role of the International Monetary System in Financialization.” Pp. 220–242 in Gerald A. Epstein, ed., *Financialization and the World Economy*. Cheltenham, UK: Edward Elgar.
- Davis, Ann E. 1983. “A Study of Marxian Business Cycle Theory.” Ph.D. dissertation, Boston College. Ann Arbor, Michigan: University Microfilms International.
- . 2004. “Globalized Financial Markets.” Pp. 37–52 in Siamack Shojai and Robert Christopherson, eds., *The Virtuous Vice: Globalization*. Westport, Connecticut: Greenwood Press.
- . 2008. “Endogenous Institutions and the Politics of Property: Comparing and Contrasting Douglass North and Karl Polanyi in the Case of Finance.” *Journal of Economic Issues*, XLII:4 (December), 1101–1122.
- Eichengreen, Barry. 2007. *Global Imbalances and the Lessons of Bretton Woods*. Cambridge, Massachusetts: MIT Press.
- Eichengreen, Barry, and Ricardo Hausmann, eds. 2005. *Other People’s Money: Debt Denomination and Financial Instability in Emerging Market Economies*. Chicago, Illinois: University of Chicago Press.

- Epstein, Gerald A., ed. 2005. *Financialization and the World Economy*. Cheltenham, UK: Edward Elgar.
- Ferguson, Niall. 2001. *The Cash Nexus*. New York: Basic Books.
- Foley, Duncan K. 1986. *Money, Accumulation and Crisis*. New York: Harwood Academic Publishers.
- Frank, Ellen. 2003. "The Surprising Resilience of the U. S. Dollar." *Review of Radical Political Economics*, 35:3 (Summer), 248–254.
- Gao, Victor Zhikai. 2009. "China's Heart of Gold." *The New York Times* (May 14), A33.
- Habermas, Jurgen. 1973. *Legitimation Crisis*. Boston, Massachusetts: Beacon Press.
- . 1989. *The Structural Transformation of the Public Sphere: An Inquiry into a Category of Bourgeois Society*. Cambridge, Massachusetts: MIT Press.
- Harvey, David. 2005. *A Brief History of Neoliberalism*. New York: Oxford University Press.
- Hausmann, Ricardo, and Federico Sturzenegger. 2006a. "Global Imbalances or Bad Accounting?: The Missing Dark Matter in the Wealth of Nations." Harvard University Center for International Development, Working Paper No. 124 (January). <http://www.cid.harvard.edu/cidwp/124.htm>
- . 2006b. "The Implications of Dark Matter for Assessing the US External Imbalance." Harvard University Center for International Development Working Paper No. 137 (November). <http://www.cid.harvard.edu/cidwp/137.htm>
- Higgins, Matthew, and Thomas Klitgaard. 2007. "Financial Globalization and the U. S. Current Account Deficit." *Current Issues in Economics and Finance*, 13:11 (December). New York: Federal Reserve Bank of New York.
- Kaplan, Louise J. 2006. *Cultures of Fetishism*. New York: Palgrave Macmillan.
- Keynes, John Maynard. 1964. *The General Theory of Employment, Interest, and Money*. New York: Harcourt, Brace & World.
- Krugman, Paul. 2009. "Failure to Rise." *The New York Times* (February 13).
- Krugman, Paul, and Maurice Obstfeld. 2009. *International Economics*. 8th ed. New York: Pearson Addison Wesley.
- Lenin, V. I. 1939. *Imperialism: The Highest State of Capitalism*. New York: International Publishers.
- Lerner, Abba P. 1947. "Money as a Creature of the State." *American Economic Review*, 37:2 (May), 312–317.
- Lucas, Robert I. Jr. 1990. "Why Doesn't Capital Flow from Rich to Poor Countries?" *American Economic Review*, 80:2, 92–96.
- Marx, Karl. 1967. *Capital*. Vols. I, II, III. New York: International Publishers.
- . 1970. *Critique of Hegel's "Philosophy of Right"*. New York: Cambridge University Press.
- . 1978. "On the Jewish Question." Pp. 26–52 in Robert C. Tucker, ed., *The Marx–Engels Reader*. Second ed. New York: W. W. Norton.
- Mattick, Paul. 1969. *Marx and Keynes: The Limits of the Mixed Economy*. Boston, Massachusetts: Porter Sargent.
- McKinnon, Ronald I. 2005. *Exchange Rates Under the East Asian Dollar Standard: Living with Conflicted Virtue*. Cambridge, Massachusetts: MIT Press.
- . 2007. "Exchange Rates and Trade Balances under the Dollar Standard: The Transfer Problem Reconsidered." Presented at the Allied Social Science Association meeting, Chicago, Illinois (January 6).

- Mehrling, Perry. 2000. "The State as Financial Intermediary." *Journal of Economic Issues*, 34:2 (June), 365–368.
- Minsky, Hyman. 1982. "The Financial Instability Hypothesis: Capitalist Processes and the Behavior of the Economy." Pp. 13–38 in Charles P. Kindleberger and Jean-Pierre Laffargue, eds., *Financial Crises: Theory, History and Policy*. New York: Cambridge University Press.
- Morgan, Jamie. 2009. "How Should We Conceive the Continued Resilience of the U. S. Dollar as a Reserve Currency?" *Review of Radical Political Economics*, 41:1 (Winter), 43–61.
- Moseley, Fred, ed. 2005. *Marx's Theory of Money: Modern Appraisals*. New York: Palgrave Macmillan.
- . 2008. "The 'Macro-Monetary' Interpretation of Marx's Theory: A Reply to Ravanani's Critique." *Review of Radical Political Economics*, 40:1 (Winter), 107–118.
- Nesvetailova, Anastasia. 2006. "Fictitious Capital, Real Debts: Systemic Illiquidity in the Financial Crises of the Late 1990s." *Review of Radical Political Economics*, 38:1 (Winter), 45–70.
- Polanyi, Karl. 1944. *The Great Transformation*. Boston, Massachusetts: Beacon Press.
- Poovey, Mary. 1998. *A History of the Modern Fact*. Chicago, Illinois: University of Chicago Press.
- Roubini, Nouriel. 2009. "The Almighty Renminbi." *The New York Times* (May 14), A33.
- Smith, Adam. 1994. *The Wealth of Nations*. Edwin Cannan, ed. New York: Modern Library.
- Stiglitz, Joseph E., and Bruce Greenbaum. 2003. *Towards a New Paradigm in Monetary Economics*. New York: Cambridge University Press.
- Tcherneva, Pavlina R. 2007. "Chartalism and the Tax-Driven Approach to Money." In Philip Arestis and Malcolm C. Sawyer, eds., *A Handbook of Alternative Monetary Economics*. Cheltenham, UK: Edward Elgar.
- Terzi, Andrea. 2006. "International Financial Instability in a World of Currencies Hierarchy." Pp. 3–21 in Louis-Philippe Rochon and Sergio Rossi, eds., *Monetary and Exchange Rate Systems: A Global View of Financial Crises*. Cheltenham, UK: Edward Elgar.
- Thomas, Landon Jr. 2009. "Treasury Boss Taking Fire in Europe over Stimulus." *The New York Times* (February 15).
- Wachtel, Howard. 1986. *The Money Mandarins: The Making of a Supranational Economic Order*. New York: Pantheon.
- Wray, L. Randall. 1998. *Understanding Modern Money: The Key to Full Employment and Price Stability*. Cheltenham, UK: Edward Elgar.